MAX FINANCIAL SERVICES

MAX LIFE INSURANCE

Max Financial Performance Update

Investor Release H1 FY20

6th November, 2019

Claims Paid Ratio 98.26% FY 17-18 *As per IRDAI Annual Report 2017-18 #BharoseKaNumber

India's Best Companies To Work For 2018

A STUDY BY THE ECONOMIC TIMES Great Place to Work.

Max and MS Joint Venture

SECTION I

- Max Financial Services : H1FY20 Key Highlights

Max Financial Services : H1FY20 Key Performance Highlights

1. Consolidated Revenue* at **Rs 8,635 Cr,** grows **10%.** Consolidated PAT at **Rs 119** Cr, down **25%,** due to shift in product mix towards NPAR savings (increase from 5% in H1FY19 to 20% in H1FY20) and investments in proprietary channels

2. **MCEV** as at 30th Sep 2019 **at Rs. 9,745 Cr,** grows 26% y-o-y**;** Operating RoEV (annualised) at **18.3%** in line with the previous year

3. **VNB** (post overrun) has grown **25%** to **Rs 364 Cr. Structural NBMs** (pre cost overrun) have expanded by **170 bps** to **~25%** and Actual NBMs (post cost overrun) also expands by **60 bps** to **21%**, driven by increased focus on Non-Par savings

4. Max Life has outperformed the industry growth on Individual APE by growing **22%** to **Rs 1,717 Cr vs** private insurers growth of **16%** with market share expanding by **51 bps** to **9.3%**

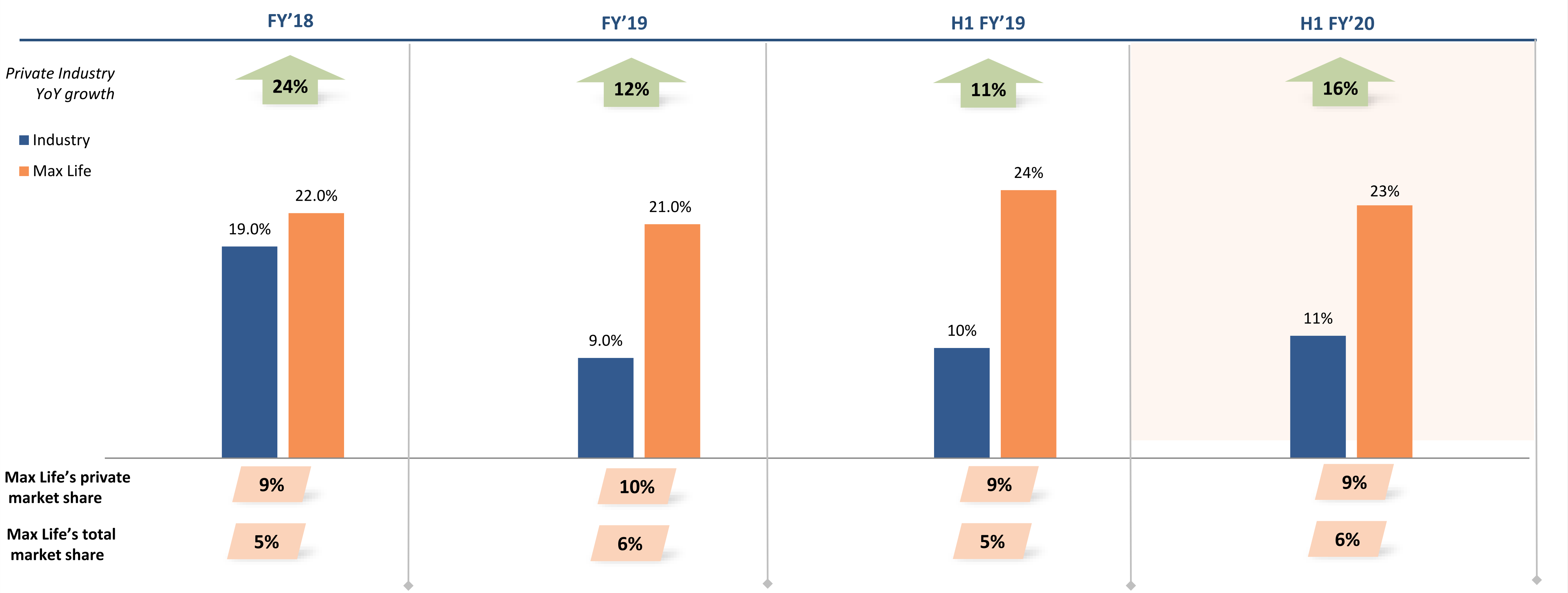
* Consolidated numbers are reported on IND-AS basis

SECTION II

- Max Life Insurance – Business Overview

Industry Landscape (H1 FY'20): Total Industry grew by 11%, while Pvt. players grew by 16% and LIC by 5%)

YoY Growth basis Individual Adjusted FYP



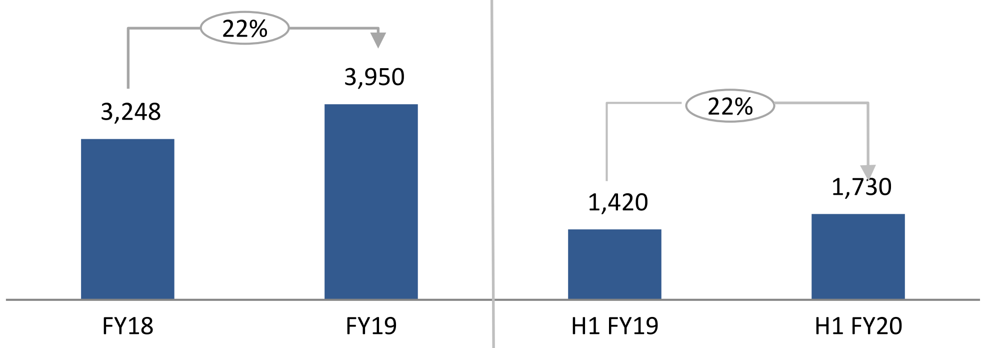
Max life continues to demonstrate predictable and sustainable growth rate trajectory in line with our strategy.

Source: Life Insurance Council | IRDAI

Max Life has delivered strong performance on both new business and renewal business; Maintained 4th rank in the private industry

New Business Premiums (on APE basis)

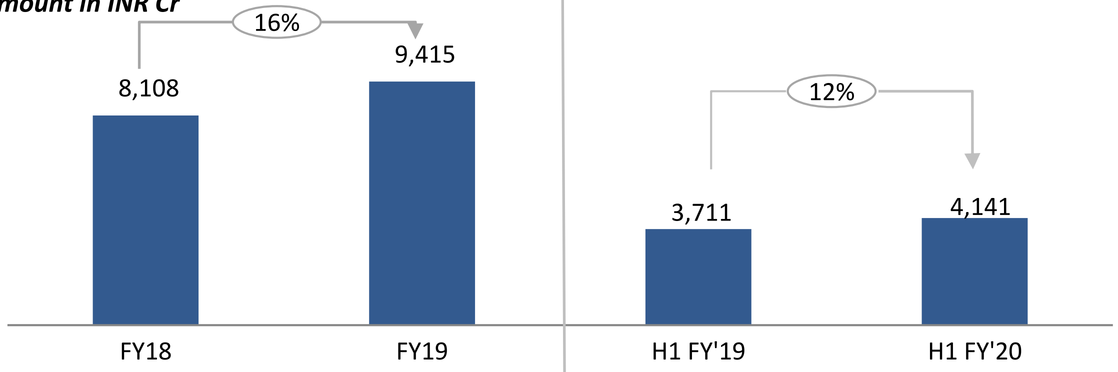
Amount in INR Cr



	FY18	FY19	H1 FY19	H1 FY20
Mkt Share#	**9.0%**	**9.7%**	**8.8%**	**9.3%**
Pvt Ind Rank	**4**	**4**	**4**	**4**

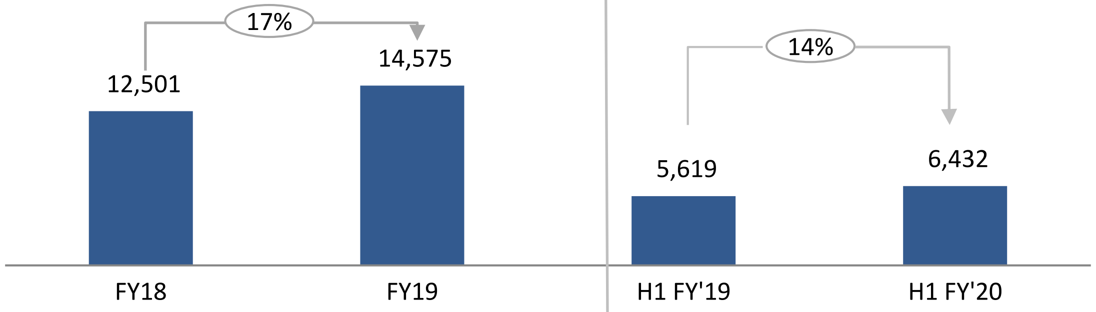
Renewal Income

Amount in INR Cr



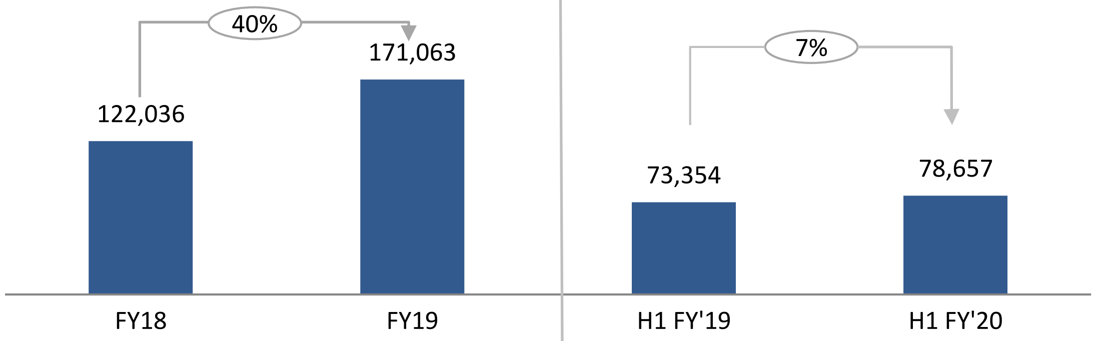
Gross Written Premium

Amount in INR Cr



Individual Sum Assured of New business

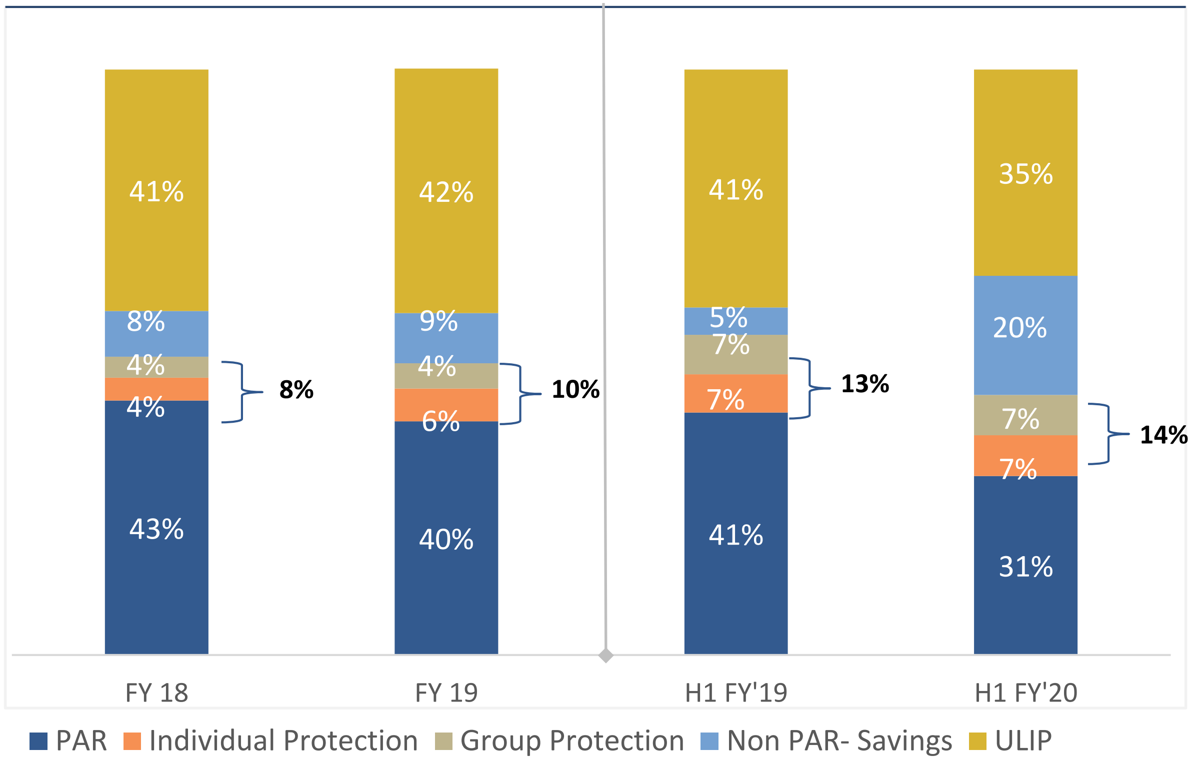
Amount in INR Cr



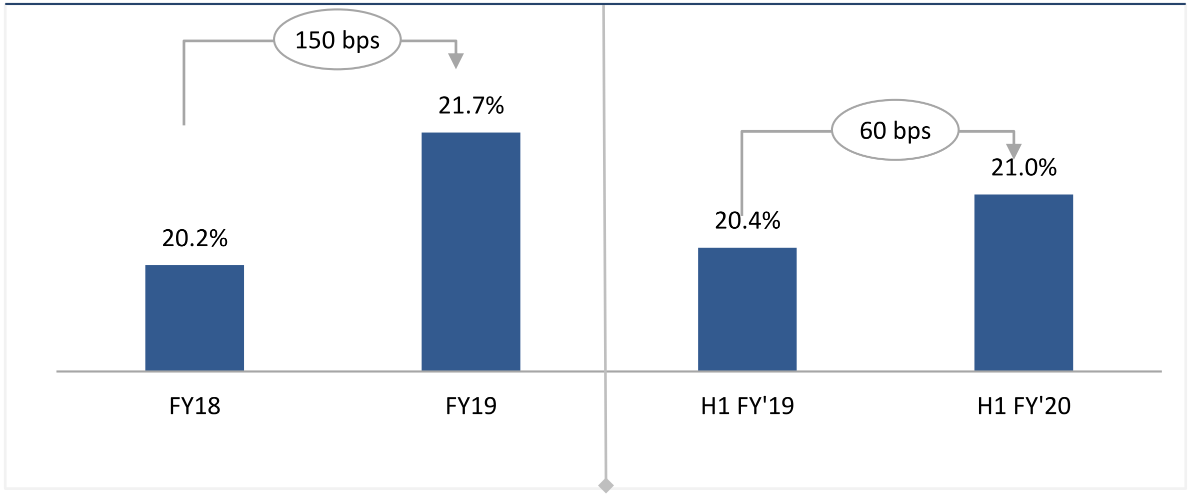
Total APE includes Individual and Group Credit Life APE. It excludes Group term Loan # on individual Adj FYP basis

25% growth in VNB with H1 margins at ~21% driven by increased focus on Non Par Savings

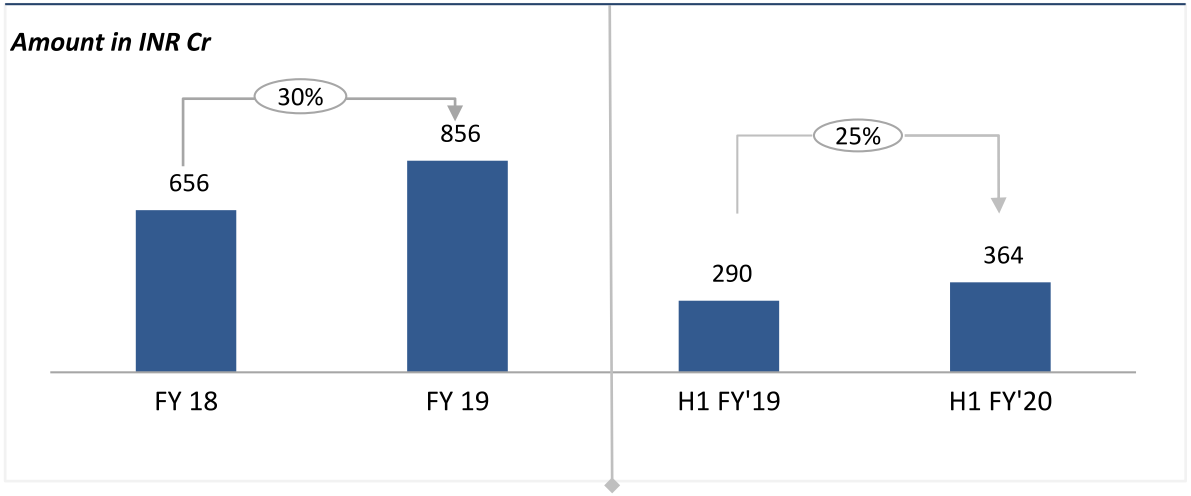
Product Mix – Shift towards NPAR savings mix increased by 1500 bps to drive margin expansion. Individual Protection mix grew by 44 bps, while the Group Protection mix grew by 14 bps



Margins (post-overrun)*



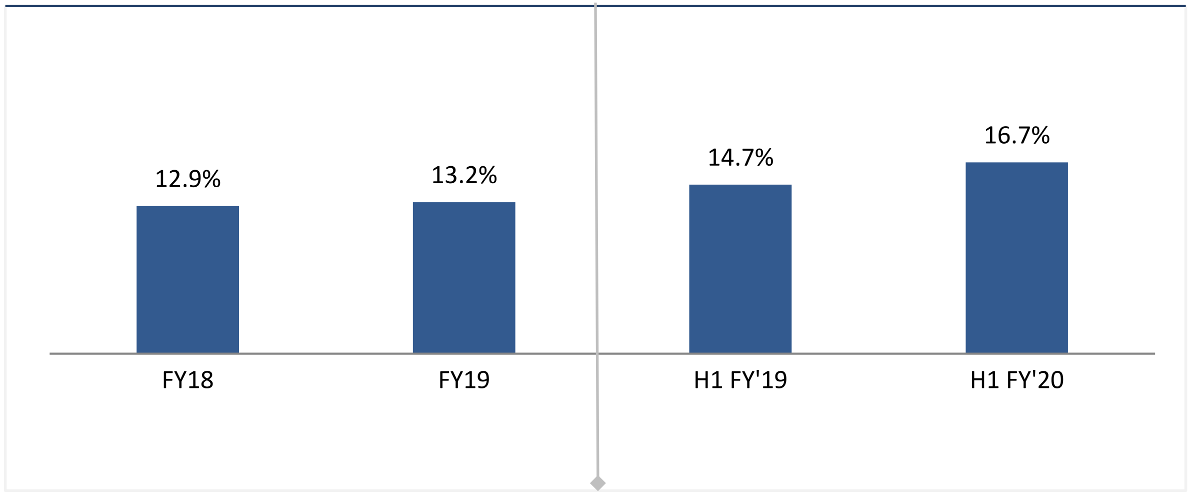
VNB (post over-run)*



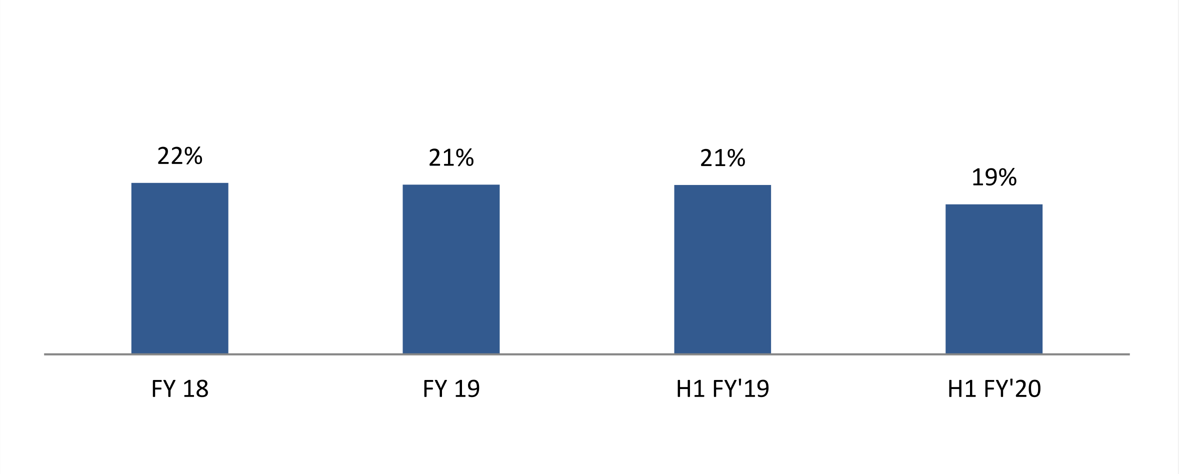
*VNB and margins for FY19 & H1 FY20 are calculated using effective tax rate; # For H1FY20 VNB & margins, cost of capital charge (used to compute CRNHR) was reduced from 5.0 % to 4.0 %

Efficient capital management with consistent RoE of ~20%... among the best in financial services

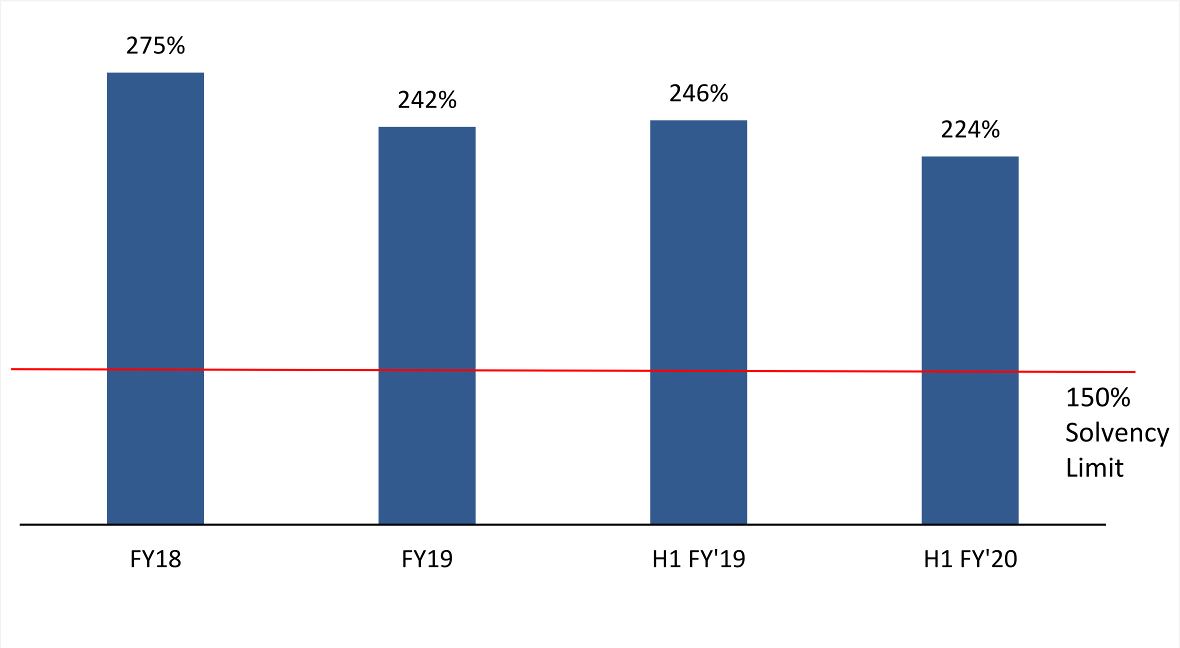
Opex to GWP* - Increase due to investment in proprietary channels



Return on Equity (RoE)# - Consistent ROE



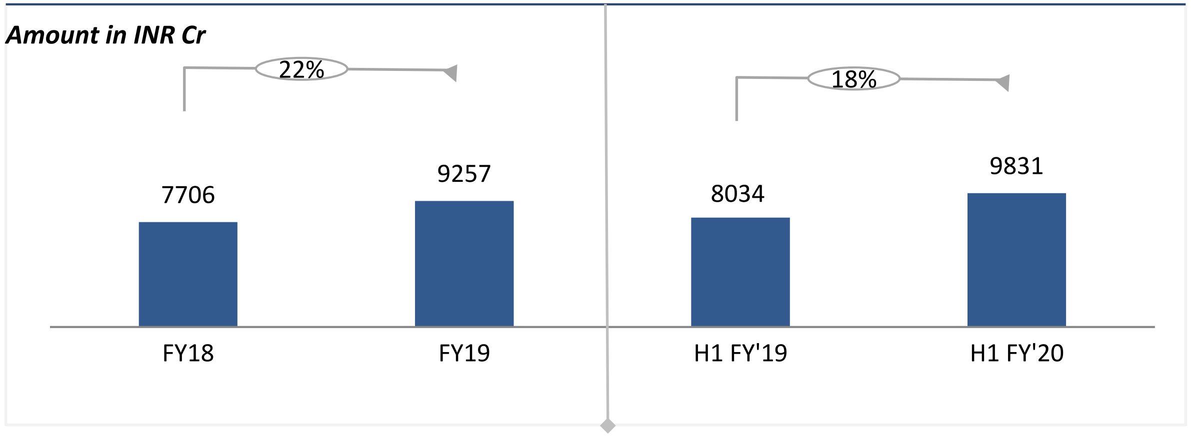
Solvency Ratio (pre dividend) - maintained well above the regulatory requirement



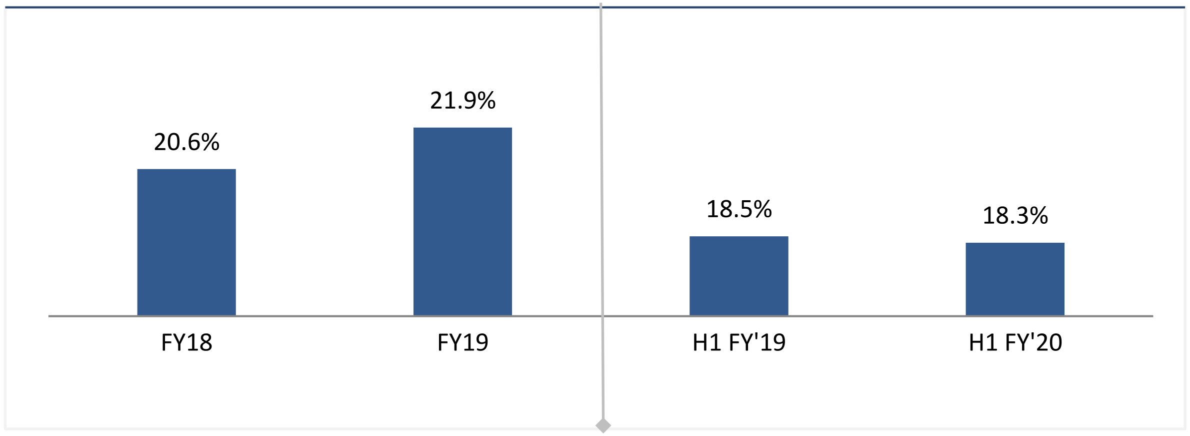
** Refers to the policyholder expense to GWP ratio; # ROE is PAT as a ratio of average Net worth during the year*

Operating RoEV for H1FY20 at 18.3%(annualised) in line with H1FY19

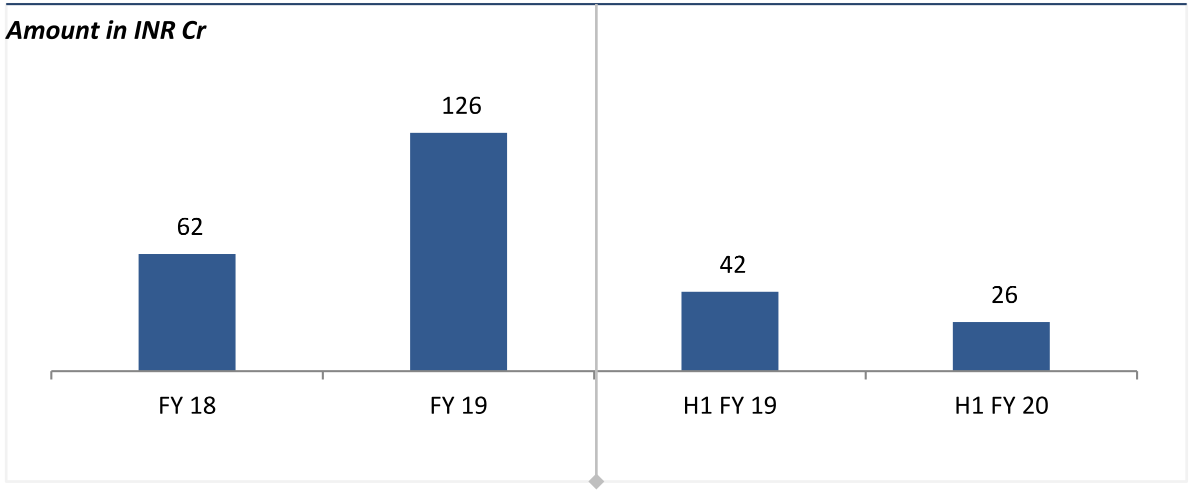
Embedded Value (EV)* - EV has grown at 18% driven by growth in value of new business and quality of inforce business



Operating Return on Embedded Value - RoEV at ~18.3% in H1FY20



Operating Variance - has been generally positive over the years



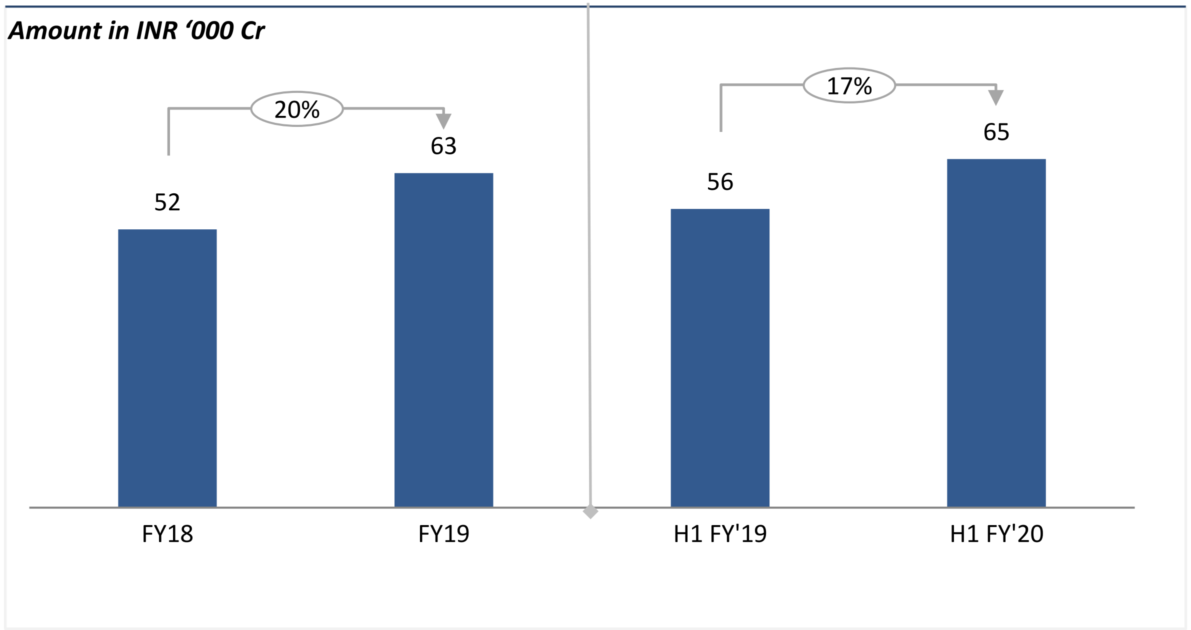
Sensitivity – One of the least among competition due to balanced product mix

Item	Embedded Value		Value of New Business	
	-10%	10%	-10%	10%
Lapse / Surrender	-1%	2%	4%	-4%
Mortality	-2%	2%	5%	-5%
Expense	-1%	1%	7%	-7%

** Growth in EV represents RoEV, EV for H1FY20 is post using the effective tax rate and reduction in cost of capital charge (use in computing CRNHR) from 5% to 4%*

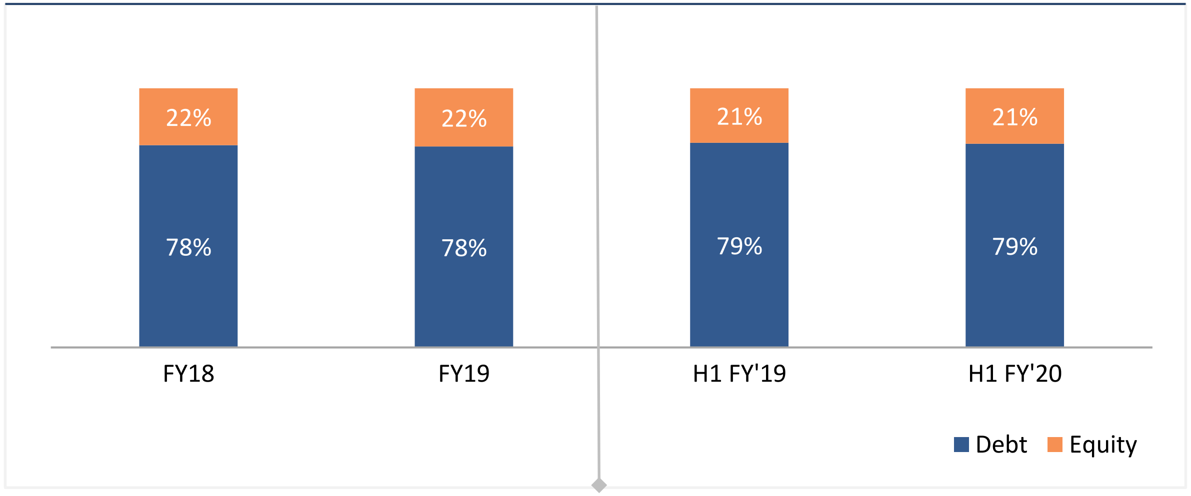
Max Life has consistently grown its Asset Under Management

Assets Under Management - MLI is the 4th largest manager of LI AUMs

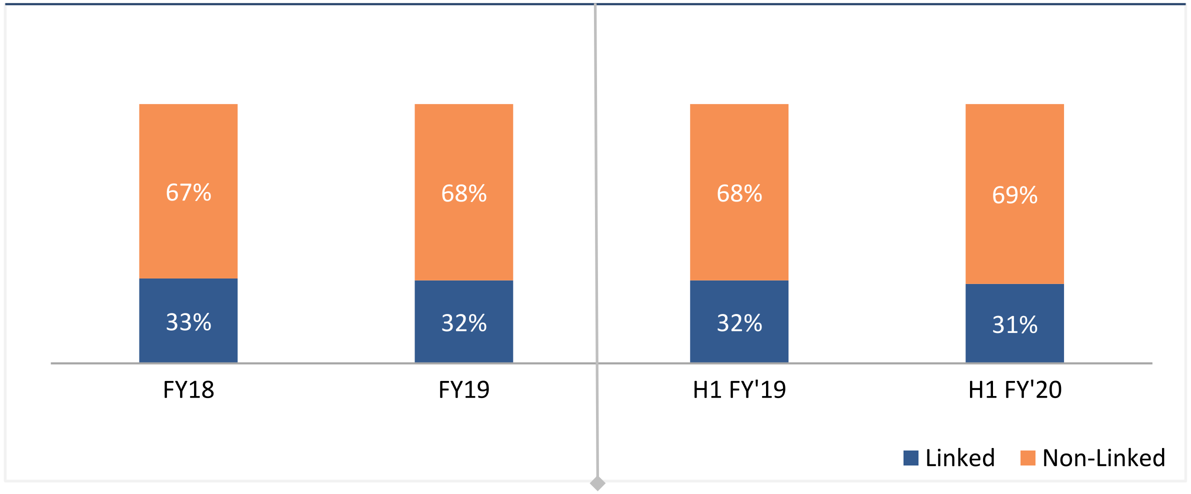


With PAR AUM at ~35,000 Cr. (Sep’19), Max Life has the highest PAR AUM in the private industry. ULIP’s Debt : Equity share is 49:51

Debt-Equity Mix - Healthy mix of Debt and Equity on an overall level

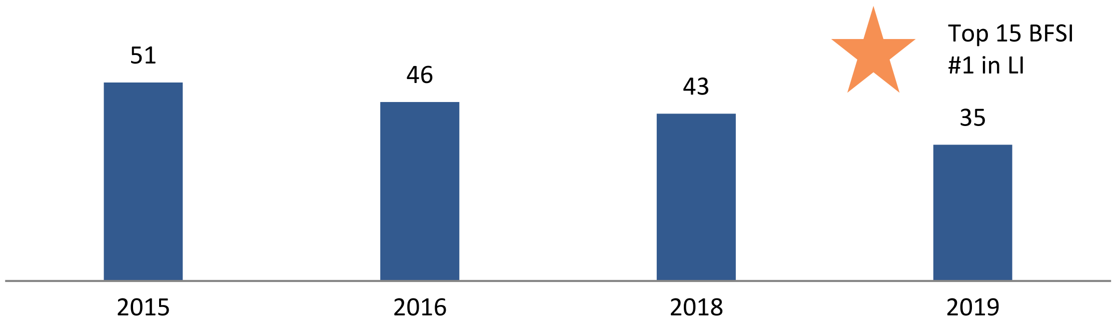


Fund Type (Linked vs Non-linked)

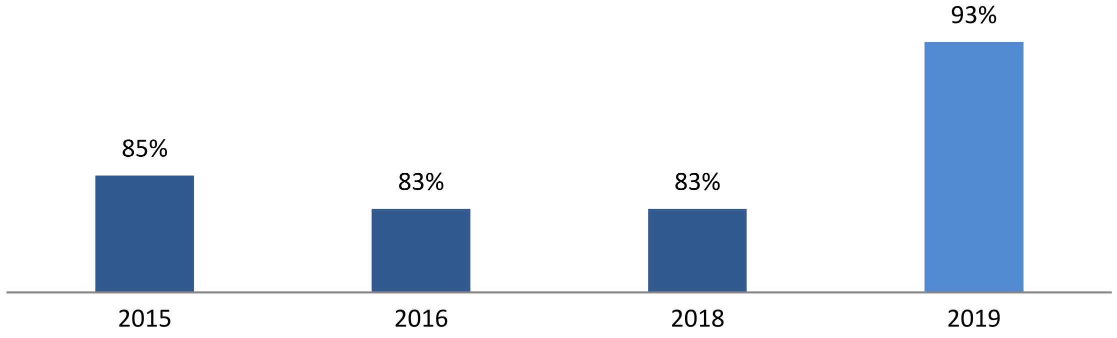


Unwavering focus on leadership strength and has a vintage employee pool, both of which are critical for success in long term businesses such as Life Insurance

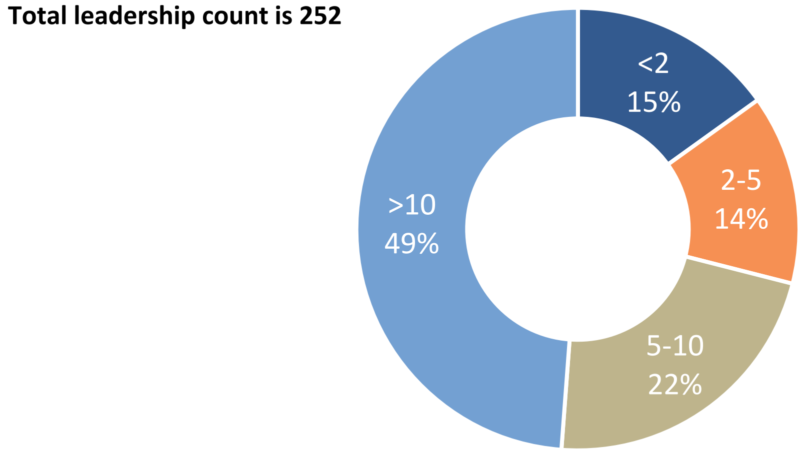
Great Place to Work Survey - Only Life insurance Company amongst Top 100 India's best place to work for in 2019; rank improved since 2015



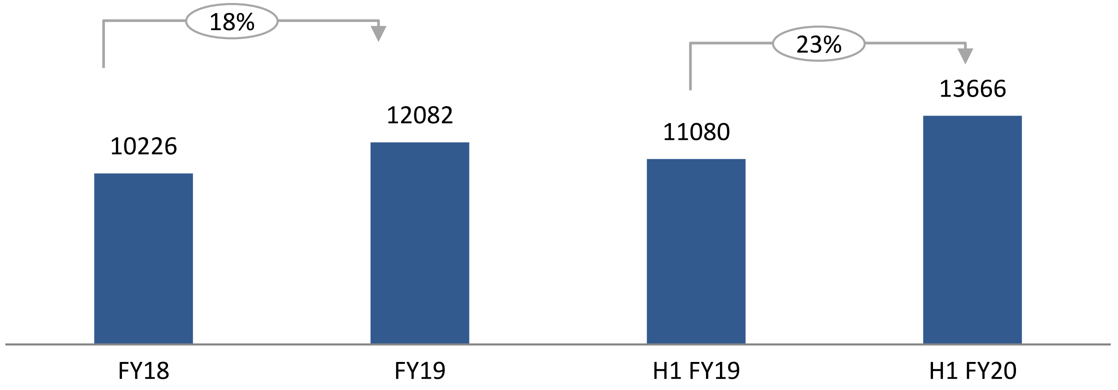
Employee Engagement^ - Consistently amongst top decile



Leadership Experience - Almost half the leadership has been with the company for more than a decade*



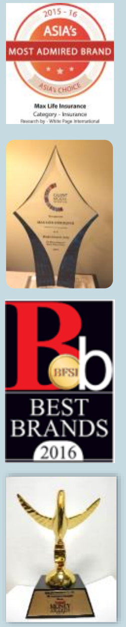
Headcount - In line with the growth aspirations, headcount has been ramped up by 23% in H1 FY20



** Leadership defined as Vice President and above, Data as of Sep 30, 2019 ^ Conducted by IBM Kenexa till FY18 and Willis Tower Watson in FY19*

Max Life has been recognised by a number of Indian and foreign business bodies for its excellence in business, customer service and focus on people

Business Excellence



- Winner of **CII Industry Innovation Award**
- **Outlook Money Award** for Best Life Insurer
- Most Admired Brand By White Paper International
- Economic Times Best Brands 2016
- Golden Peacock award for Corporate Governance
- Silver Award at the ACEF 8th Global Customer Engagement Awards 2019 in the BTL Activities Category.

Leaders in Quality

- No. 1 in Customer Loyalty survey by IMRB
- Gold at ASQ World Conference
- Winner of IMC Ramkrishna Bajaj National Quality Award
- Winner of CII Industry Innovation Award
- Asia Pacific Quality Organization (APQO) award for global performance excellence
- Silver Award in ASQ ITEA 2019 for Sell Right for Customer Delight at Axis Bank
- Silver Award in the 12th QCI-DL Shah Quality Awards for Enhancing S2R Conversion% Select 60 offices in Agency.
- At CMO Asia Awards , won Best Term Plan Company of the Year

Focus on People

- Ranked 35th – India's Best Companies to work for in 2019. Best in Insurance industry
- Top 20 BFSI companies to work for by Great Place to Work Institute
- India's Top 75 Workplaces for Women by Great Place to Work Institute
- Employee Engagement Leadership Award for "Best use of the Employee Award"
- Employee Engagement Leadership Award for "Best Social Responsibility"

SECTION III

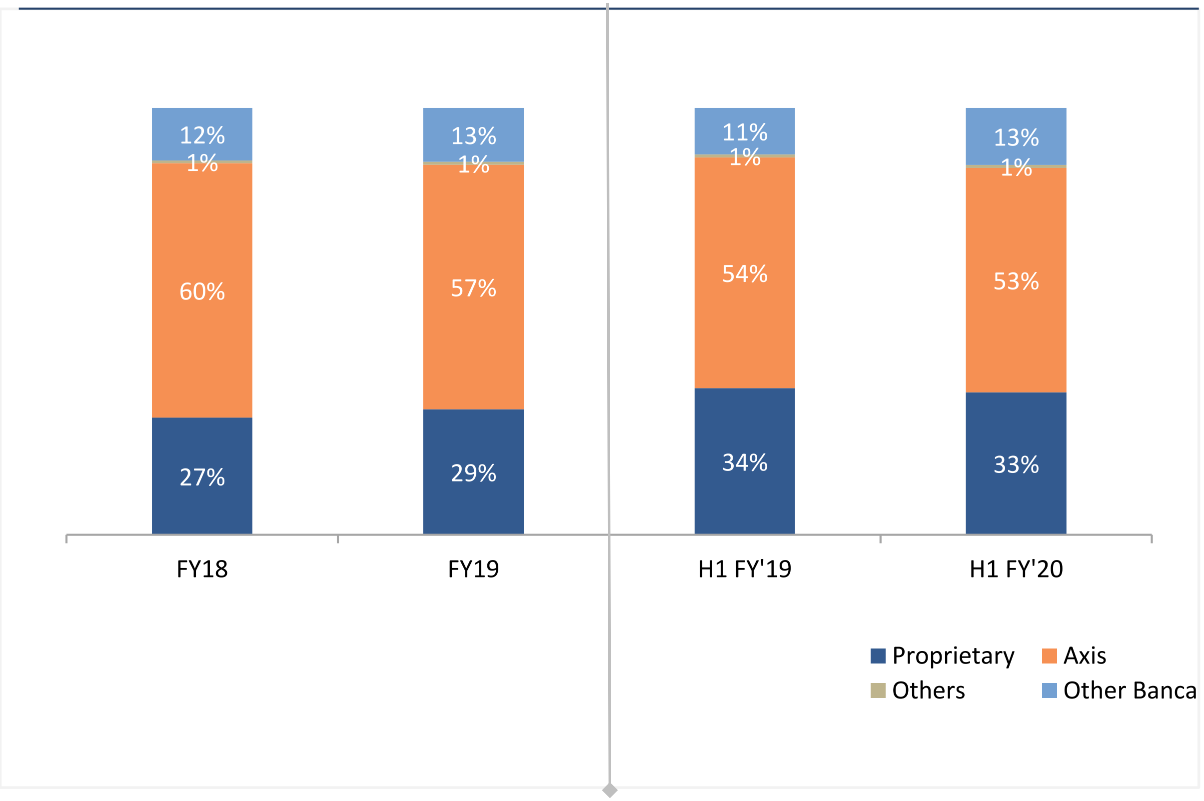
- Max Life Insurance – Strategy FY19-22

Max Life embarked on its journey of 25%+ VNB growth, 25% NBM and 25% ROEV aspirations by FY22. Key strategic elements to achieve the vision

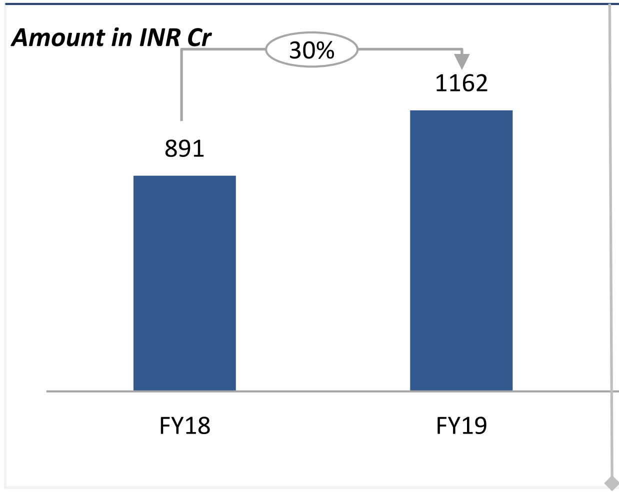
	A – Predictable & Sustainable growth	B – Product innovation to drive margins	C – Customer centricity across the value chain	D – Digitization for efficiency and intelligence
INITIATIVES	▪ Deepen Bancassurance partnerships ▪ On-board new distribution partners ▪ Scale up existing proprietary channels ▪ Opportunistic play for inorganic growth	▪ Increase protection penetration ▪ Drive Non PAR saving ▪ Tap into new growth opportunities like health and retirements ▪ Enhanced investment and mortality risk management	▪ #1 position in 13M and 61M persistency ▪ Highest Relationship Net Promoter Score (NPS) in the industry	▪ Continue with digitization agenda across the organisation ▪ Build intelligence (AI) in all digital assets ▪ Minimize back-office costs
ASPIRATIONS FY22	▪ Achieve 25%+ VNB growth rate ▪ Increase share of proprietary channels sales to ~35% ▪ Continue growing highly productive agents (premium >10 lakhs per annum) by 20%+ CAGR	▪ Achieve ~25% new business margin and consequently ~25% RoEV ▪ Achieve protection penetration of 14%+ and NPAR savings penetration of 13%+	▪ Improve 13M persistency to 88%+ and 61M Persistency to 58%+ ▪ Leaders in NPS in the sector	▪ Achieve 90%+ Insta-issuance ▪ Self-service transactions to exceed 90%

Max Life has focused on ensuring growth in both its Proprietary and Bancassurance channels

Channel Mix - Max Life has focused on maintaining a balanced distribution mix



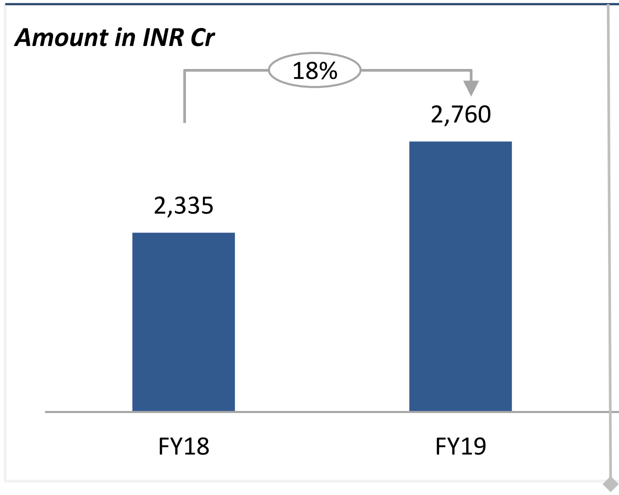
Proprietary Channels New Business (APE) – Higher sales growth in proprietary in Q2 as a result of agency restructuring.



Q1 FY19	Q1 FY20	Growth
197	228	16%

Q2 FY19	Q2 FY20	Growth
291	349	20%

Bancassurance Channel (APE) – Maintaining around 20% growth in Banca QoQ

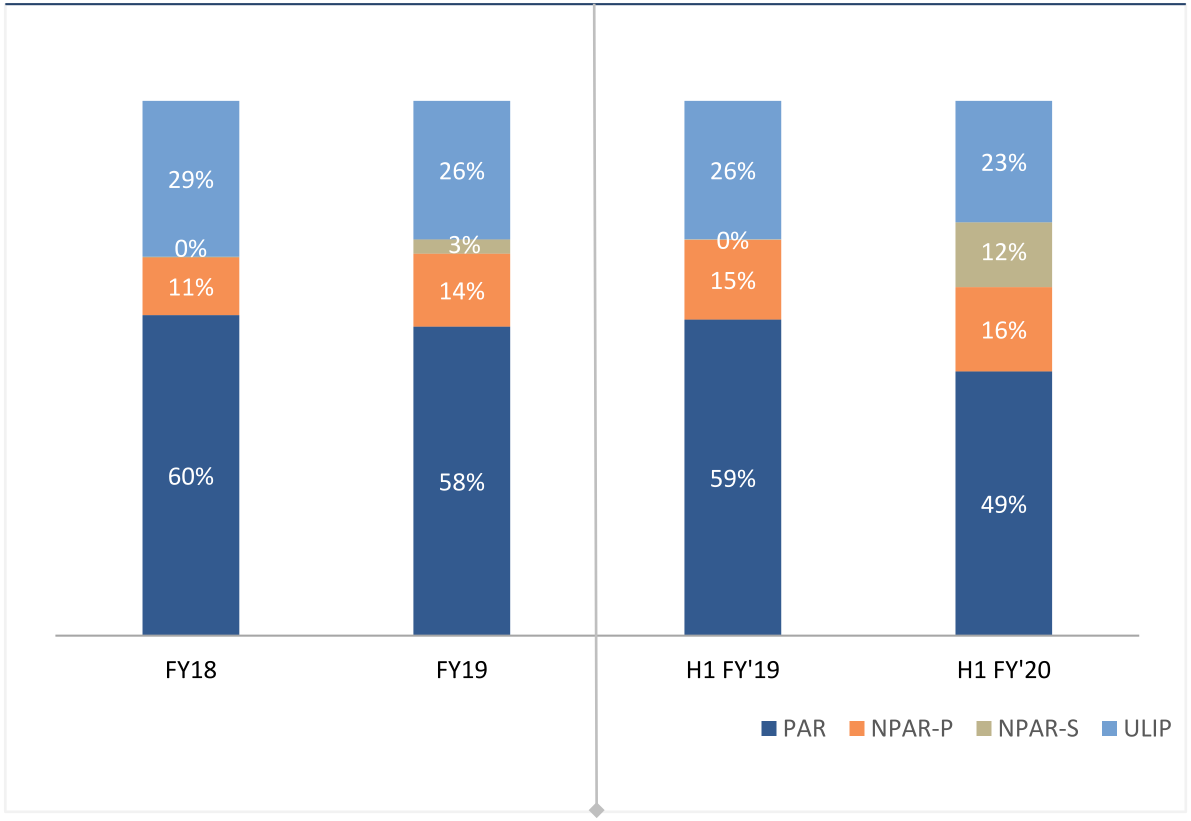


Q1 FY19	Q1 FY20	Growth
357	451	26%

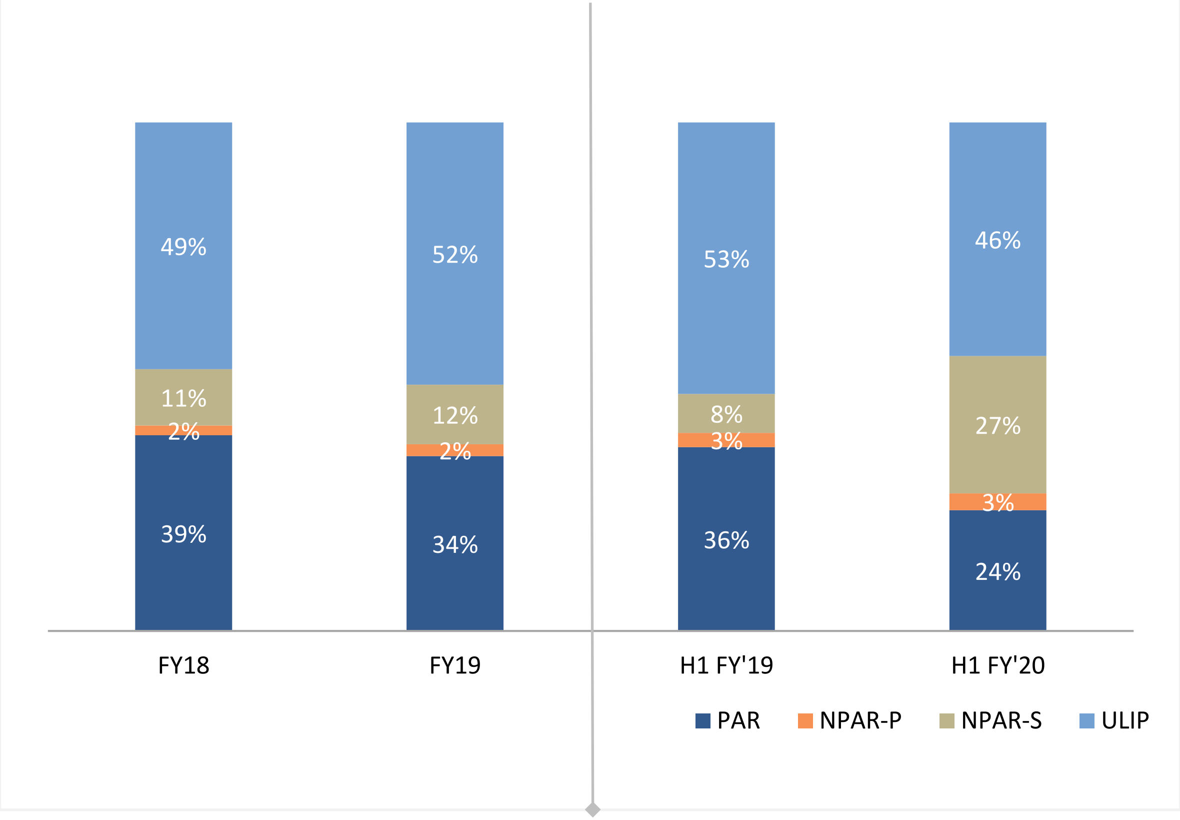
Q2 FY19	Q2 FY20	Growth
565	689	22%

A Product mix proprietary and Bancassurance channels aligned to customer needs; future focus to be on driving balanced product mix

Proprietary Channels Product mix - biased towards traditional products and protection for driving margins



Bancassurance Product Mix – focused on increasing NPAR Savings to drive margins

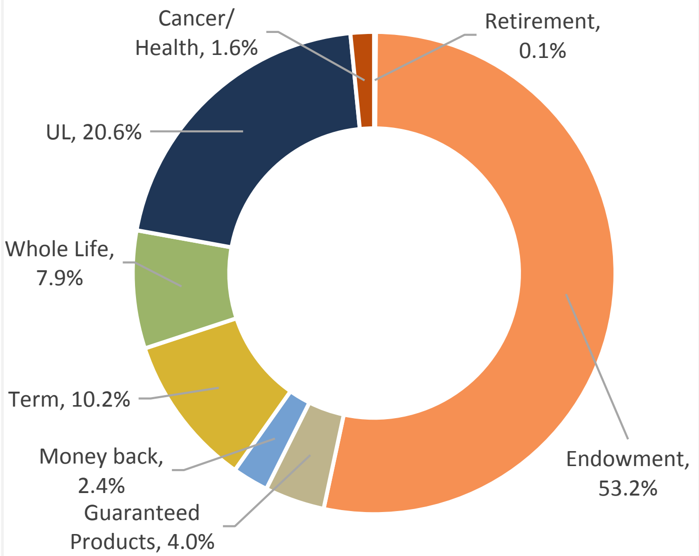


Max Life has a complete suite of products and focus is on selling longer term products along with improving penetration of pure protection offerings

Max Life has products across all categories

4 Protection plans	**1** Health plan
3 Income plans	**1** Annuity plan
2 Endowment plans	**1** Retirement ULIP
3 ULIP plans	**1** Whole life
2 Child plans	**5** Riders

Current portfolio[1] biased towards traditional products



Product Type	Average Policyholder Age (Years)	Average Policy Term (Years)	Average PPT (Years)
Endowment	35	23	11
ULIP	38	14	10
Whole Life	36	64	51
Money back	28	17	16
Pure Term	35	35	34
Guaranteed products	43	19	9
Health	39	18	18
Cancer Insurance	38	29	29
Pension	34	22	22
Annuity	63	57	1
As on 30th Sep 2019	36 Average	25 Average	16 Average

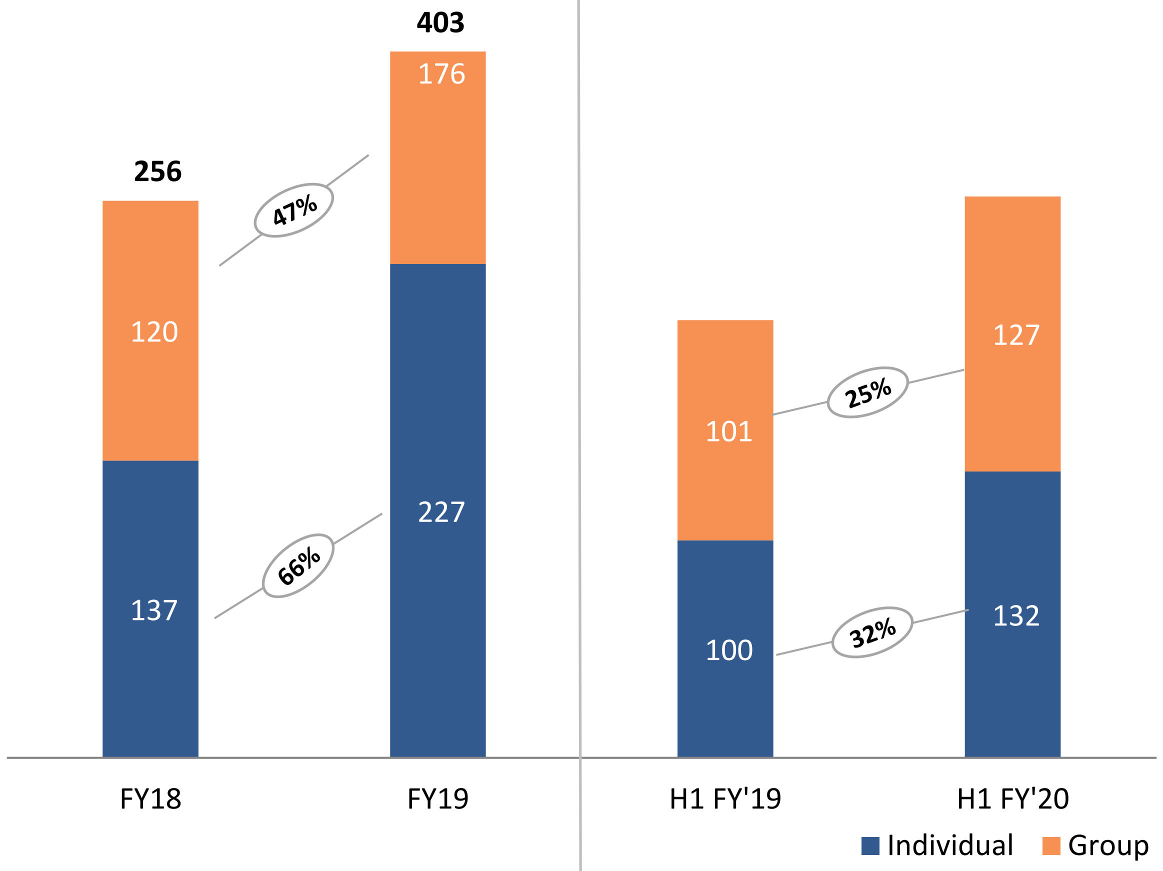
(1) Based on all policies sold till date

Focus on Protection: 32% increase in individual protection APE, 30% of total individual policies are pure protection

B

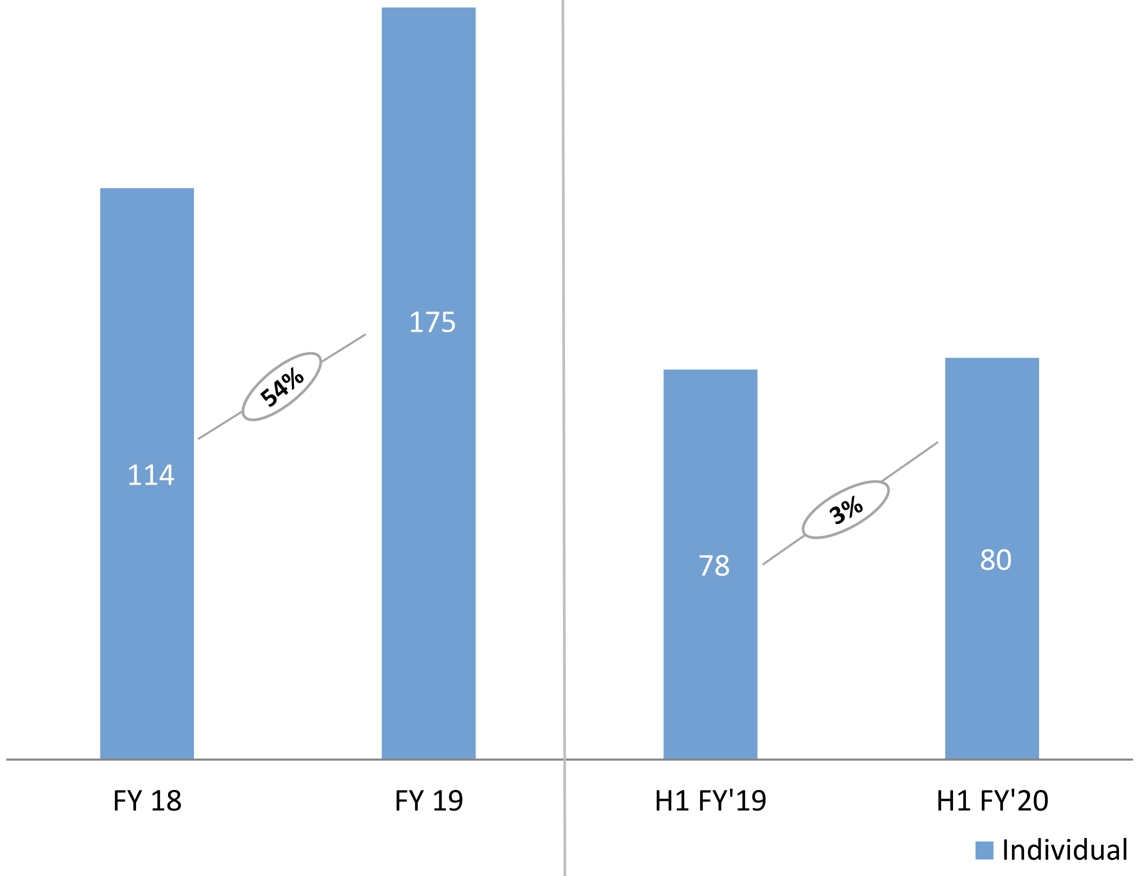
Total APE (Individual + Group)

Figures in Rs. Cr.



No of Protection Policies (Individual)- Lower NoP growth in H1 FY 20 due to introduction of limited pay term

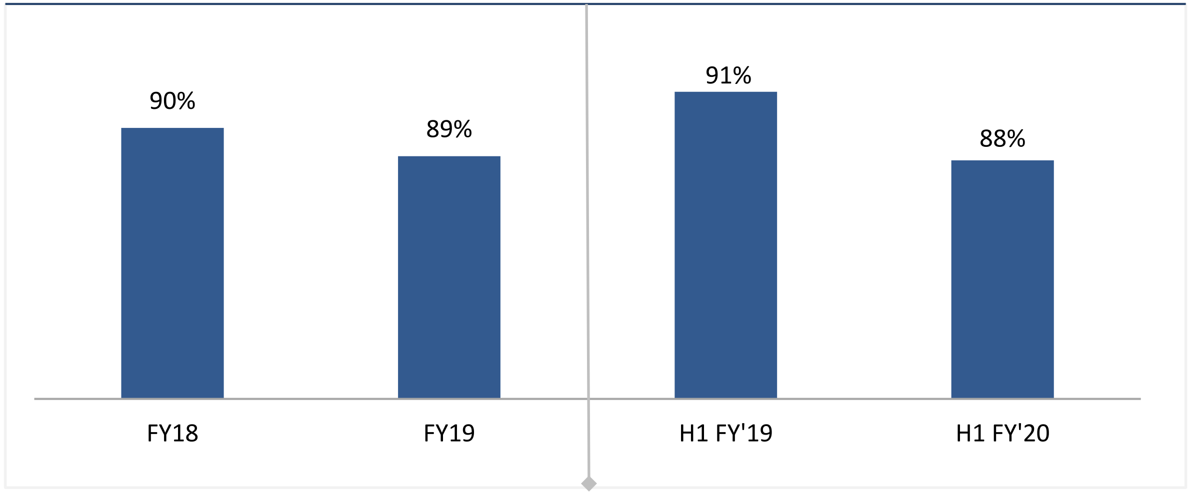
Figures in '000.



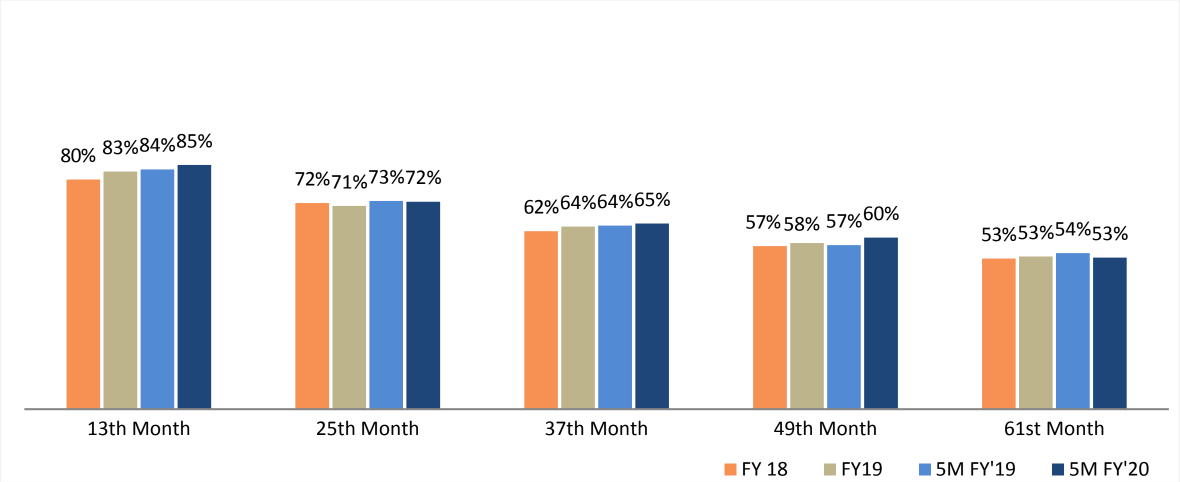
Total APE (incl. Group credit life adjusted for 10% for single premium and term business)

Strong focus towards customer measures has helped deliver superior performance across health parameters and will continue to remain an important priority

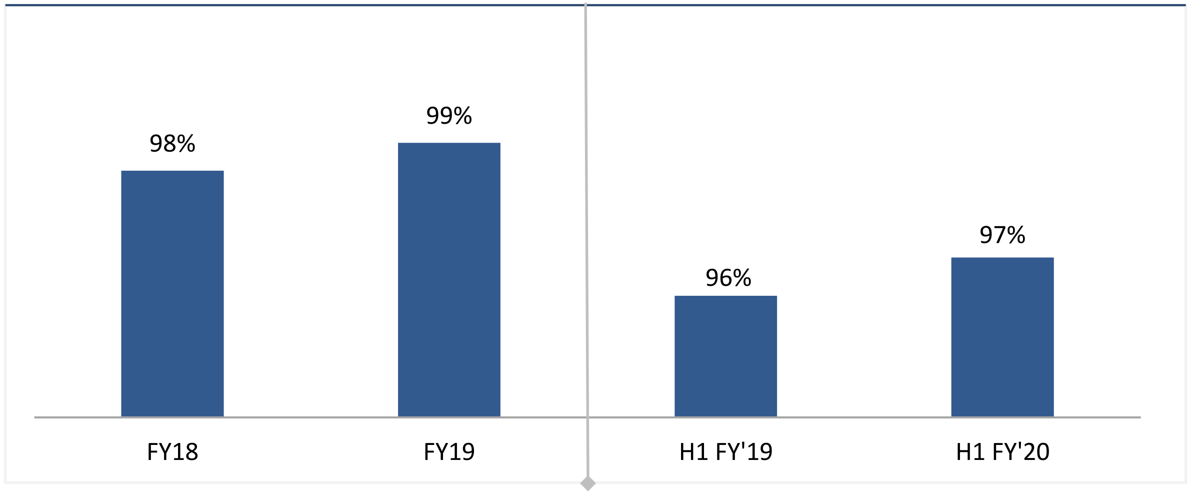
Conservation Ratio



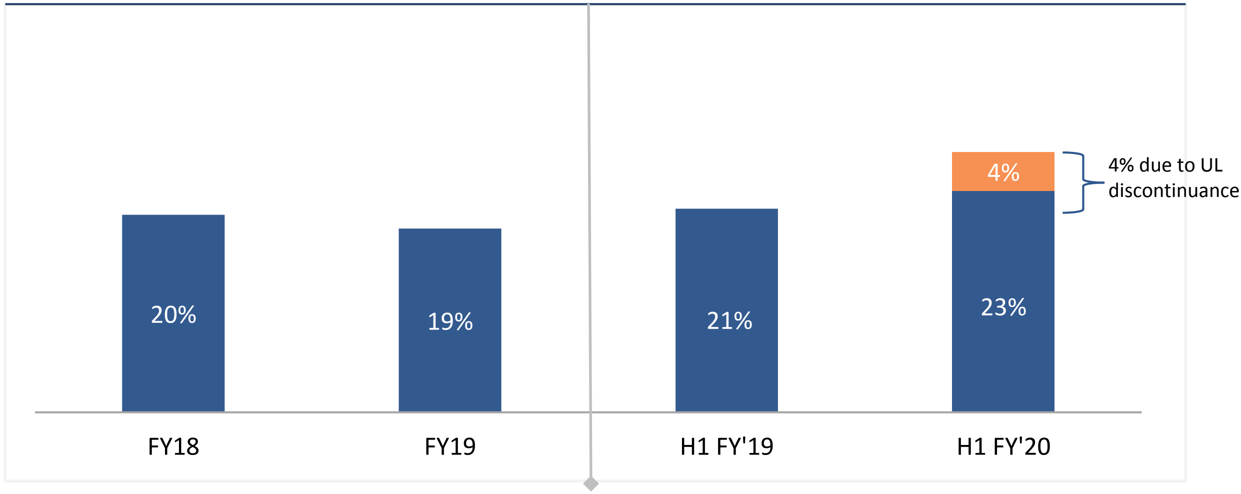
Persistency^



Claims Paid Ratio



Surrender to GWP- Higher Surrenders due to higher payouts w.r.t. UL surrenders due to discontinuance



^Persistency disclosure is based on 5M FY20 and compared with 5M FY19 while for FY 19 and FY 18, persistency disclosure is for full 12 months

D Significant elements of the value chain digitized, focus remains to leverage digitization & AI for augmenting efficiencies

Digital building blocks in end-to-end customer journey deployed at Max Life

Agent Onboarding	Sourcing	Application Processing	Underwriting	Verification	Issuance	Account service	Collection
Digital Recruitment	Multi-platform, mobility enabled applications	Digital data capture	Automated rule engine	Digital verification	Concise and digital policy packs	Automated AI based service mgmt through email bots and predictive IVRs	Multiple digital payment options (incl. ECS)
Agent Onboarding	Pre-approved/ pre-qualified	Integration with partner banks (for data)	Automated credit score check & income assessment	Video based verification / Face match	eIA		Scheduled customer reminders
Online Training	Conversational interfaces (chatbots, voice)	OCR & QR readers	Medical record digitization (OCR)	Analytical models to drive enhanced verification & identify frauds	Digitized delivery of policy document via DigiLocker, Whatsapp		AI based collection management
	Proprietary lead management system	Enriched / surrogate data capture	Integration with other databases for data augmentation				
		Automated dedupe	TeleMedicals				
		eMandate for recurring payments	Automated field investigation				
		Digital payment capabilities	Analytical models to drive enhanced underwriting				

On track to deliver 2-3x improvement in TATs across processes along with spend base rationalisation of 15-20%; All the above initiatives expected to go-live in FY 20

SECTION IV

- Max Life Insurance – MCEV Disclosures: H1 FY’20

Key Results

The Embedded Value[1] (EV) as at 30th September 2019 (post allowing for proposed interim shareholder dividend) is **Rs 9,745 Cr.** Before allowing for proposed interim shareholder dividend, the EV is **Rs 9,831 Cr**.

The annualized Operating Return on EV[2] (RoEV) over H1 FY20 is **18.3%**. Including non-operating variances, the RoEV is **21.0%**.

The New Business Margin (NBM) for H1 FY20 is **24.6%** (before allowing for acquisition operating cost overrun) and **21.0%** (post overrun). The Value of New Business (VNB) written over the period is **Rs 364 Cr** (post overrun), representing year on year growth of **25%**.

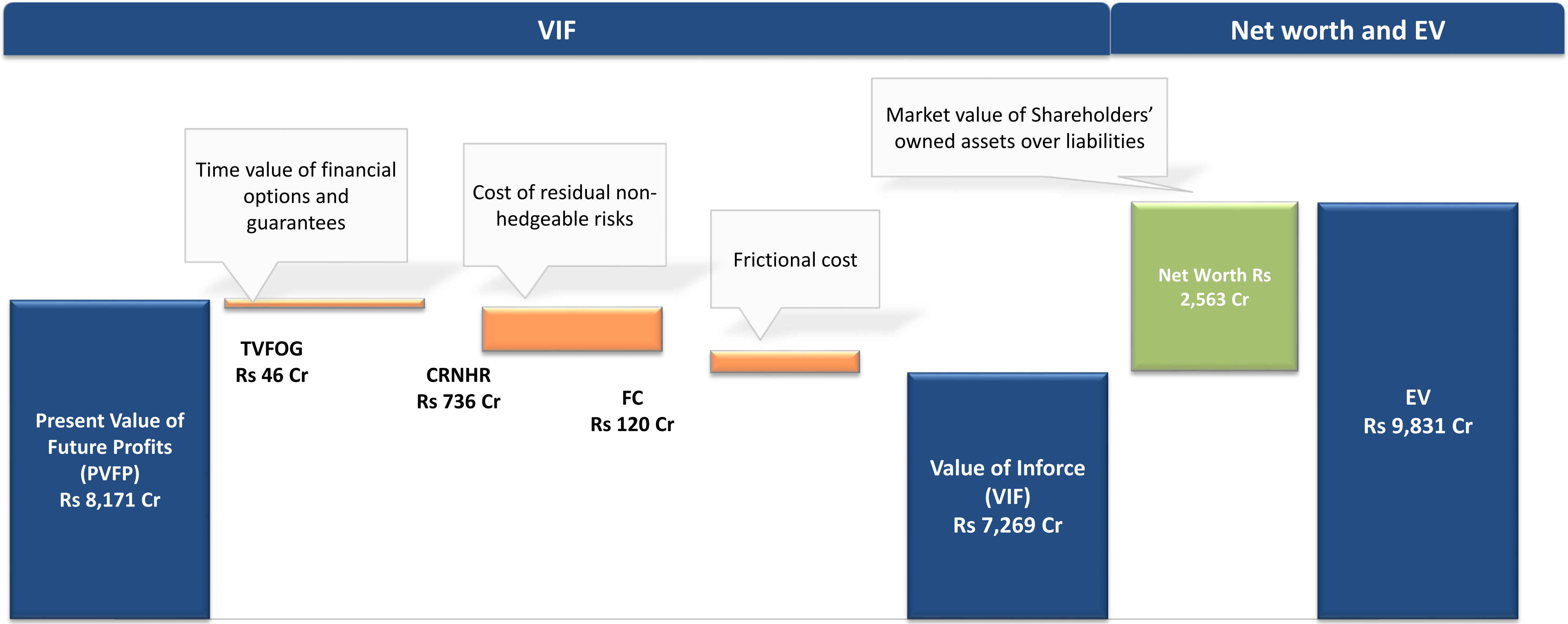
Notes:

[1] Max Life's Embedded Value (EV) is based on a market consistent methodology. However, they are not intended to be compliant with the MCEV Principles issued by the Stitching CFO Forum Foundation (CFO Forum) or the Actuarial Practice Standard 10 (APS10) as issued by the Institute of Actuaries of India.

[2] The Return on EV is calculated before capital movements during the year e.g. dividends.

Corporate tax rate is effective tax rate post allowing for tax exemption on dividend income

Overview of the components of the EV as at 30th September 2019



1. The deductions for risks to arrive at the VIF represent a reduction of ~11% in the PVFP. The largest deduction is in respect of CRNHR.
2. Within CRNHR, persistency risk constitutes the largest risk component.

Note: Figures in Rs Cr. And may not add up due to rounding

Value of New Business and New Business Margins as at 30th September 2019

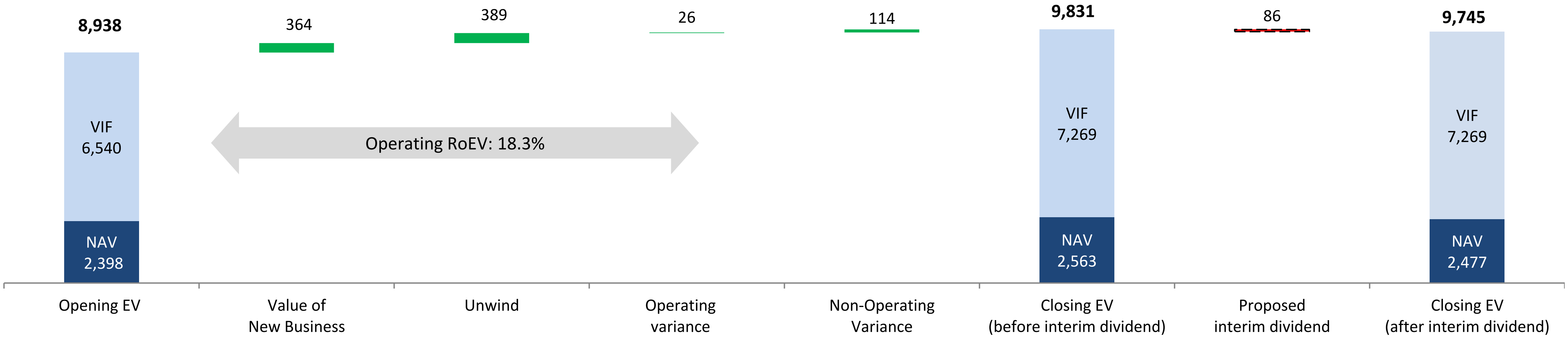
Description	H1 FY19	H1 FY20	Y-o-Y growth
APE [1]	1,420	1,730	22%
New Business Margin (NBM) (before cost overrun)	22.9%	24.6%	+170 bps
New Business Margin (NBM) (post cost overrun)	20.4%	21.0%	+60 bps
Value of New Business[2] (VNB) (post cost overrun)	290	364	25%

- The New Business Margin (NBM) before cost overrun has increased by circa 170 bps to 24.6% for H1 FY20 compared to 22.9% for H1 FY19.
- The increase in margins is primarily driven by increase in proportion of non-par business.
- Post allowing for acquisition operating cost overrun chargeable to shareholders, the NBM reduces to 21.0%.

[1] Annual Premium Equivalent (APE) is calculated as 100% of regular premium + 10% of single premium.
[2] The VNB is accumulated from the point of sale to the end of the reporting period (i.e. 30th September 2019), using the beginning of quarters' risk free yield curve.

Note: Figures in Rs Cr.

EV movement analysis: March 2019 to Sep 2019



- Operating return on EV of 18.3% is mainly driven by new business growth and unwind.
- Non-operating variances are mainly driven by positive variance as a result of use of lower cost of capital charge in estimating CRNHR and economic variances.
- The proposed interim shareholder dividend of Rs 86 Cr will be accounted post 30th September 2019. Post the payment of interim dividend, the closing EV will be Rs 9,745 Cr.

Sensitivity analysis as at 30th September 2019

Figures in Rs Cr.

Sensitivity	EV		New business	
	Value (Rs Cr)	% change	VNB (Rs Cr) | NBM	% change
Base Case (before final SH dividends)	**9,831**	**-**	**364 | 21.0%**	-
Lapse/Surrender - 10% increase	9,691	(1%)	351 | 20.3%	(4%)
Lapse/Surrender - 10% decrease	9,979	2%	378 | 21.8%	4%
Mortality - 10% increase	9,677	(2%)	346 | 20.0%	(5%)
Mortality - 10% decrease	9,987	2%	382 | 22.1%	5%
Expenses - 10% increase	9,741	(1%)	338 | 19.5%	(7%)
Expenses - 10% decrease	9,923	1%	390 | 22.6%	7%
Risk free rates - 1% increase	9,690	(1%)	373 | 21.6%	3%
Risk free rates - 1% reduction	9,903	1%	334 | 19.3%	(8%)
Equity values - 10% immediate rise	9,905	1%	364 | 21.0%	Negligible
Equity values - 10% immediate fall	9,648	(1%)	364 | 21.0%	Negligible
Corporate tax Rate - 2% increase	9,651	(2%)	353 | 20.4%	(3%)
Corporate tax Rate - 2% decrease	10,012	2%	375 | 21.6%	3%
Corporate tax rate increased to 25%	8,611	(12%)	293 | 16.9%	(20%)

1. Reduction in interest rate curve leads to an increase in the value of assets which offsets the loss in the value of future profits.
2. Risk free rate sensitivities under new business allow for the change in the value of assets as at the date of valuation

SECTION V

- Max Life Insurance – Financial Performance

Financial Performance Summary H1 FY'20

Pvt Market Share
9.3%
[8.8%]
51 bps ↑

Individual APE
Rs 1,730 Cr
[Rs 1,420 Cr]
22% ↑

Gross Written Premium
Rs 6,432 Cr
[Rs 5,619 Cr]
14% ↑

AUM
Rs 65,425 Cr
[Rs 56,070 Cr]
17% ↑

Profit Before tax
Rs 170 Cr
[Rs 276 Cr]
39% ↓

Net Worth
Rs 2,563 Cr
[Rs 2,633 Cr]
3% ↓

Policyholder Expense to GWP Ratio
16.7%
[14.7%]
>100 bps ↑

Policyholder Cost to GWP Ratio
23.0%
[21.3%]
>100 bps ↑

New Business Margins

Structural	Actual
24.6%	21.0%#
[22.9%]	[20.4%]

60 bps ↑

RoEV
18.3%
[18.5%]
20 bps ↓

Embedded Value*
9,831
[8,034]
18.3% ↑

13th Month Persistency
85%
[84%]
>100 bps ↑

VNB
364#
[290]
25% ↑

Policies Sold ('000)
265
[258]
3% ↑

Claim Settlement Ratio
96.8%
[96.1%]
70 bps ↑

Protection Mix**

Individual	Group	Total
7%	7%	14%
[7%]	[7%]	[13%]

60 bps ↑

Figures in [brackets] are for previous year numbers # VNB and Margins are post effective tax rate and reduction of CRNHR from 5% to 4%

*Growth on Embedded value is operating RoEV, **Group protection (incl. Group credit life adjusted for 10% for single premium and term business);

Delivering consistent growth in top line and investing for future growth

Financial Performance

	FY18	Change	FY19	H1 FY'19	Change	H1 FY'20
Individual APE	3,217	22%	3,917	1,405	22%	1,717
Renewal Premium	8,152	15%	9,415	3,711	12%	4,141
Gross Premium	12,501	17%	14,575	5,619	14%	6,432
Policyholder expense to GWP Ratio	12.9%	34 bps	13.2%	14.7%	193 bps	16.7%
Policyholder Cost to GWP Ratio	20.0%		20.0%	21.3%	174 bps	23.0%
Expense to average AUM (Policyholder)	3.6%		3.6%	3.5%	29 bps	3.8%

Note: Figures in Rs Cr.

Healthy and consistent long term profitability creating value to all the stakeholders while maintaining solvency above required levels

Financial Performance

Financial Performance	FY18	Growth	FY19	H1 FY'19	Growth	H1 FY'20
Profit(before Tax)	615	1%	623	276	-39%	170
AUM	52,237	20%	62,798	56,070	17%	65,425
New Business Margin (Post Overrun)	20.2%	150 bps	21.7%	20.4%	60 bps	21.0%
MCEV (pre dividend)^	7,706	22%	9,257	8.034	18%	9,831
Operating RoEV	20.6%	130 bps	21.9%	18.5%	20 bps	18.3%
Solvency Ratio	275%	33%	242%	246%	22%	224%

Figures in Rs. Cr.

^Arrow represents growth in Operating RoEV

Performance update- Q2’FY20 and H1’FY20

Key Business Drivers	Unit	Quarter Ended		Q-o-Q Growth	Period Ended		Y-o-Y Growth
		Sep’18	Sep’19		Sep’18	Sep’19	
a) Individual APE	Rs. Crore	853	1,038	22%	1,405	1,717	22%
b) Gross written premium income	Rs. Crore	**3,299**	**3,781**	15%	**5,619**	**6,432**	14%
First year premium		846	1,053	24%	1,382	1,699	23%
Renewal premium		2,157	2,401	11%	3,711	4,141	12%
Single premium		296	328	11%	526	592	13%
c) Shareholder Profit (Pre Tax)*	Rs. Crore	185	93	-50%	276	170	-39%
d) Policy Holder Expense to Gross Premium	%	9.8%	11.2%	-139 bps	14.7%	16.7%	-193 bps
e) Conservation ratio	%	90.9%	86.8%	-406 bps	90.9%	88.5%	-242 bps
f) Average case size(Agency)	Rs.	53,322	69,772	31%	54,482	65,106	20%
g) Share Capital	Rs. Crore				1,919	1,919	0%
h) Individual Policies in force	No. Lacs				41.50	43.04	4%
i) Sum insured in force	Rs. Crore				616,528	8,25,875	34%
j) Grievance Ratio	Per Ten thousand				72	65	

* Profit before tax is lower compared to previous year due to increase in NPAR savings business from 5% in H1 FY19 to 20% in H1 FY20 and investments in future growth

Annexure

Definitions of the Embedded Value (EV)

Market consistent methodology

- The EV and VNB have been determined using a market consistent methodology which differs from the traditional EV approach in respect of the way in which allowance for the risks in the business is made.[1]
- For the market consistent methodology, an explicit allowance for the risks is made through the estimation of the Time Value of Financial Options and Guarantees (TVFOG), Cost of Residual Non-Hedgeable Risks (CRNHR) and Frictional Cost (FC) whereas for the traditional EV approach, the allowance for the risk is made through the Risk Discount Rate (RDR).

Components of EV

The EV is calculated to be the sum of:

- Net Asset value (NAV) or Net Worth: It represents the market value of assets attributable to shareholders and is calculated as the adjusted net worth of the company (being the net shareholders' funds as shown in the audited financial statements adjusted to allow for all shareholder assets on a market value basis, net of tax).
- Value of In-force (VIF): This component represents the Present Value of Future expected post-tax Profits (PVFP) attributable to shareholders from the in-force business as at the valuation date, after deducting allowances for TVFOG, CRNHR and FC. Thus, VIF = PVFP – TVFOG – CRNHR – FC.

Covered Business

- All business of Max Life is covered in the assessment except one-year renewable group term business and group fund business which are excluded due to their immateriality to the overall EV.

1 The EV as at March 2015 was reviewed by external consultant (Milliman) and their opinion was shared along with the disclosure at March 2015. This disclosure follows the same methodology.

Components of VIF (1/2)

Present Value of Future Profits (PVFP)

- Best estimate cash flows are projected and discounted at risk free investment returns.
- PVFP for all lines of business except participating business is derived as the present value of post-tax shareholder profits from the in-force covered business.
- PVFP for participating business is derived as the present value of shareholder transfers arising from the policyholder bonuses *plus* one-tenth of the present value of future transfers to the participating fund estate and one-tenth of the participating fund estate as at the valuation date.
- Appropriate allowance for mark-to-market adjustments to policyholders' assets (net of tax) have been made in PVFP calculations to ensure that the market value of assets is taken into account.
- PVFP is also adjusted for the cost of derivative arrangements in place as at the valuation date.

Cost of Residual Non-Hedgeable Risks (CRNHR)

- The CRNHR is calculated based on a cost of capital approach as the discounted value of an annual charge applied to the projected risk bearing capital for all non-hedgeable risks.
- The risk bearing capital has been calculated based on 99.5 percentile stress events for all non-hedgeable risks over a one-year time horizon. The cost of capital charge applied is 4% per annum. The approach adopted is approximate.
- The stress factors applied in calculating the projected risk capital in the future are based on the latest EU Solvency II directives recalibrated for Indian and Company specific conditions.

Components of VIF (2/2)

Time Value Of Options and Guarantees (TVFOG)

- The TVFOG for participating business is calculated using stochastic simulations which are based on 5,000 stochastic scenarios provided by Moody's Analytics.
- Given that the shareholder payout is likely to be symmetrical for guaranteed non-participating products in both positive and negative scenarios, the TVFOG for these products is taken as zero.
- The cost associated with investment guarantees in the interest sensitive life non-participating products are allowed for in the PVFP calculation and hence an explicit TVFOG allowance has not been calculated.
- For all unit-linked products with investment guarantees, extra statutory reserves have been kept for which no release has been taken in PVFP and hence an explicit TVFOG allowance has not been calculated.

Frictional Cost (FC)

- The FC is calculated as the discounted value of tax on investment returns and dealing costs on assets backing the required capital over the lifetime of the in-force business. Required capital has been set at 170% of the Required Solvency Margin (RSM) which is the internal target level of capital, which is higher than the regulatory minimum requirement of 150%.
- While calculating the FC, the required capital for non-participating products is funded from the shareholders’ fund and is not lowered by other sources of funding available such as the excess capital in the participating business (i.e. participating fund estate).

Key Assumptions for the EV and VNB (1/2)

Economic Assumptions

- The EV is calculated using risk free (government bond) spot rate yield curve taken from FBIL[1] as at 30th September 2019. The VNB is calculated using the beginning of respective quarter's risk free yield curve (i.e. 31st March 2019, 30th June 2019 respectively).
- No allowance has been made for liquidity premium because of lack of credible information on liquidity spreads in the Indian market.
- Samples from 30th September 2019 and 31st March 2019 spot rate yield curves used are:

Year	1	2	3	4	5	10	15	20	25	30
Sep 19	5.72%	5.89%	6.09%	6.38%	6.59%	6.96%	7.26%	7.40%	7.30%	7.09%
Mar 19	6.43%	6.56%	6.66%	6.87%	6.99%	7.40%	7.83%	7.78%	7.73%	7.72%
Change	-0.70%	-0.66%	-0.57%	-0.49%	-0.40%	-0.44%	-0.57%	-0.38%	-0.43%	-0.64%

Demographic Assumptions

The lapse and mortality assumptions are approved by Board committee and are set by product line and distribution channel on a best estimate basis, based on the following principles:

- Assumptions are based on last one year experience and expectations of future experience given the likely impact of current and proposed management actions on such assumptions.
- Aims to avoid arbitrary changes, discontinuities and volatility where it can be justified.
- Aims to exclude the impacts of non-recurring factors.

[1] Financial Benchmark India Pvt. Ltd.

Key Assumptions for the EV and VNB (2/2)

Expense and Inflation

- Maintenance expenses are based on the recent expense studies performed internally by the Company. The VIF is reduced for the value of any maintenance expense overrun in the future. The overrun represents the excess maintenance expenses expected to be incurred by the Company over the expense loadings assumed in the calculation of PVFP.
- Future CSR related expenses have been taken to be 2% of post tax (risk adjusted) profits emerging each year.
- Expenses denominated in fixed rupee terms are inflated at 6.0% per annum.
- The commission rates are based on the actual commission payable, if any.

Tax

- The corporate tax rate is the effective tax rate post allowing for tax exemption on dividend income for life business and nil for pension business.
- For participating business, the transfers to shareholders resulting from surplus distribution are not taxed as tax is assumed to be deducted before surplus is distributed to policyholders and shareholders.
- Goods and Service tax is assumed to be 18%.
- The mark to market adjustments are also adjusted for tax.

MAX LIFE
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